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DEPARTMENT OF TAXATION
ANNUAL REPORT 1987-1988

The Honorable John Waihee
Governor
State of Hawaii

Richard F. Kahle, Jr.
Director of Taxation
State of Hawaii

September 15, 1988

The Honorable John Waihee
Governor, State of Hawaii
Honolulu, Hawaii

Dear Governor Waihee:

I am pleased to submit to you this annual report of the activities of the Department of Taxation for the fiscal year ending June 30, 1988.

Under this administration, the department has moved forward in computerizing its activities and entered a major contract to redesign the General Excise/Transient Accommodations Tax computerized systems.

Once again, the employees of this department gave unstintingly of their time when it was required. During January, in response to the New Year's flooding, departmental staff provided assistance at three sites to persons with losses. On the final night to file annual state income tax returns, the staff stayed until midnight to receive returns and assist taxpayers. Throughout the year, Department of Taxation employees have delivered the extra time and effort to place the public's convenience foremost.

Highlights of the department's accomplishments for the year are accompanied by relevant statistical tables and charts in this report.

Respectfully submitted,

Richard F. Kahle Jr.

RICHARD F. KAHLE, JR.
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

The 1988 tax season witnessed the implementation of Act 239, Session Laws of Hawaii 1987, Hawaii's counterpart to the federal Tax Reform Act of 1986. Before the filing season began, the Department of Taxation successfully incorporated into the Comprehensive Net Income Tax System (CNIT) the numerous revisions to the net income tax law.

Characteristic of the department's emphasis on responsiveness to the public is its highly successful non-filers program. The yield from this program, which identifies delinquent taxpayers and collects overdue taxes plus penalty and interest, continues to increase. The department also enhanced its responsiveness through rapid issuing of refunds during filing season. The average refund time of four to six weeks was a significant improvement over the average turnaround of six to eight weeks in recent years, enabling taxpayers faster use of their overpaid income tax amounts. Receiving appreciative comments from the public was the department's staffing of natural disaster relief centers in the aftermath of the unusual New Year's storm. Centers in Hawaii Kai, Kailua and Waimanalo assisted flood victims in the outreach program.

The General Excise, Withholding, and Transient Accommodations Tax Redesign Project was launched in April, 1988. This project will integrate, streamline, and technologically update two current computerized systems.

TAX SERVICES AND PROCESSING DIVISION

Primary objectives of the Tax Services and Processing Division are to efficiently process all tax documents, to maintain accurate tax accounting records, and to provide service to all taxpayers through correspondence, telephone and personal contact. This division consists of three branches: Documents Processing, Revenue Accounting, and Taxpayer Services.

In order to process all tax documents on a timely basis, the Documents Processing Branch again maintained two working shifts from January to May in its Receiving and Sorting and Data Preparation Sections. Of the more than 41,000 pounds of incoming mail, 95% was processed within three days of receipt. Over 5,000 pounds of mail were received during the week of April 18-22 alone. On the filing deadline date for net income tax returns, teams of employees in bright yellow "State Tax Office Drop Box" shirts stationed themselves outside the building from 5:00 PM to midnight and collected 2,100 pieces of "last-minute" mail.

During fiscal 1988, the Document Processing Branch's Monetary Control Section cashiered 576,281 documents totaling $827 million as compared to 559,499 documents and $736 million in fiscal 1987. Data entry requirements were met by contracting temporary help services and maintaining around-the-clock operations in the Data Entry Section during the tax filing season.

To more accurately reflect collections by activity category, the Revenue Accounting Branch revised its monthly general excise/use tax activity reports effective January, 1988. This branch processed 343,799 claims for 1987 net income tax refunds from January to June, 1988.

The Taxpayer Services Branch maintains a tax assistance program with emphasis on net income taxes during the tax season. Augmented by temporary clerical help and the assistance of two field auditors who researched the most difficult questions, branch staff answered a total of 45,303 telephone calls. Waiting for an answer on the phone was made more pleasant with the installation of a continuous-reel "music on hold". For members of the public who came in for help during the tax season, temporary personnel prepared 3,366 net income tax returns. Branch staff assisted the IRS with training and coordination of the Volunteer Income Tax Assistance program, which provides tax return preparation help to the public at various community locations. Twenty-six departmental employees gave up their Saturdays in joining other volunteers in providing this service.

Late delivery of net income tax forms called for innovations in filling forms requests. The entire division worked one weekend in late January to fill local bulk, military, out-of-state accountant, and miscellaneous orders. Processing of individual forms requests was expedited by providing 24-hour code-a-phone service for phone requests and shelves of forms, including a request form for less common forms, outside the building after office hours. Night shift personnel helped process phone and written requests, reducing response time by more than 50%.

From January to June, 1988, the Taxpayer Services Branch's License and Clearance Section issued 13,578 general excise/use tax licenses and 7,487 tax clearance certificates.

COMPLIANCE DIVISION

Through its Audit and Enforcement Branches, the Compliance Division pursues its primary objective of maximum public compliance with Hawaii's tax laws. A single administrator manages these two branches encompassing 60% of the department's permanent staffing. Due to the increasing complexity of this task with the rapid advancement of computer technology, approval was received from the governor to divide the Compliance Division into an Audit Division and a Collection Division.

Staff worked overtime so that taxpayers would receive refunds as quickly as possible. Timely incorporation of changes from the Tax Reform Act into the Comprehensive Net Income Tax System eliminated the necessity of deploying field audit and enforcement personnel to handle errors on returns.

Although the Audit Branch was not able to audit as many returns as projected, it did increase assessments by $9.9 million over the previous year. The Oahu Field Audit Section achieved $7.3 million of this increase in assessments. Beginning Oahu field auditors took part in a training module geared towards locating, analyzing and researching tax issues as well as planning audit strategies. Further training modules are being developed for journey level field auditors. These modules are also being extended to neighbor island auditors.

A marked increase in activity and effectiveness in the operations of the Enforcement Branch was especially pronounced on Oahu, where delinquent collections increased by $6 million and collections from non-filers rose by $3 million. This branch also monitored the major hotel chains in the state on their Transient Accommodations Tax filing practices.

STAFF OFFICES

Administrative Services Office

Responsible for maintaining a comprehensive accounting system and controlling departmental expenditures, the Administrative Services Office complied with all budget restrictions imposed by the governor and the legislature. New procedures were developed and implemented in response to changes under the new collective bargaining agreements and state accounting policy.

On-line procedures through the Hawaii Financial Accounting and Management Information System (FAMIS) were implemented for faster processing of vouchers and checks. A central supply room was set up to enable all sections to quickly and easily obtain supplies. As the department settled into its second year of operations in the Keelikolani Building, renovation projects were initiated to remedy inadequacies of lighting, electrical outlets, data lines, and space for additional personnel. The Administrative Services Office also coordinated the department's role in the experimental staggered work hours project.

For the fiscal year, the legislature authorized the department 354 positions, distributed geographically as follows: Oahu 284, Hawaii 35, Maui/Molokai 21, and Kauai 14.

Personnel transactions/movements included 42 civil service new hires for permanent regular positions, 124 hires for temporary appointments, and 11 retirements. Other transactions included 54 promotions, transfers and reallocations, 10 resignations, and 92 terminations involving temporary positions.

STAFFING PATTERN
(Number of Authorized Permanent Positions)

	1988	1987	1986
Headquarters Administration	49	47	40
Tax Services and Processing Division	93	83	89
Compliance Division	212	197	198
	354	327	327

Systems and Procedures Office

In December, 1987, the department solicited requests for proposals from interested vendors for the redesign of the General Excise/Use and Withholding (GEW) and Transient Accommodations Tax (TAT) systems. Data House, Inc., was selected and began work in May, 1988, on an eighteen-month contract to integrate these two independent systems into one user-friendly system which will enhance the efficiency of the department's daily activities. This new system will eventually have the capability of integration with the Comprehensive Net Income Tax (CNIT) system.

Upon final system testing in December, 1987, the TAT system was moved into production as user training was completed for all branches, including those on the neighbor islands.

CNIT staff security passwords for all employees were changed in March, 1988. Employee passwords will be changed on a regular basis in the department's continuing effort to maintain security integrity on the CNIT system.

Two video terminals and one printer were installed in each of the neighbor island district offices on Maui, Hawaii and Kauai. In addition, another control unit was installed on Maui and Kauai to allow for future growth. New equipment for the Oahu district office included 18 personal computers and 8 printers. The department's teleprocessing network was thus increased to 127 video terminals and 17 printers statewide.

To meet the increasing demand for automation in the department and the tremendous changes that have taken place in data processing technology, a reorganization of the Systems and Procedures Office (SPO) was approved in January, 1988. The functions of SPO remain the same, but a project management concept was adopted wherein technical project managers are assigned responsibility for the major systems such as GEW/TAT and CNIT as well as office automation requirements such as telecommunications.

Income Technical Office

Responsible for establishing tax interpretations as well as formulating basic principles for the uniform application of Hawaii tax laws, the Income Technical Office (ITO) finalized three rules during the year. Two involved modification of liquor tax rates while the other concerned the Natural Disaster Relief Commission, which had been appointed to accept and determine claims from the severe New Year's storm. Continuing progress in the expansion of the department's rules is foreseen in the coming fiscal year. In its continuing commitment to assist the two major operational divisions in uniformly applying Hawaii tax laws, ITO holds frequent meetings to share information.

Microfilm and microfiche storage of ITO's documents will yield savings in research and document retrieval. ITO has met this challenge by conferring with appropriate vendors in exploring the feasibility of acquiring the most economical and effective information storage system.

New ground in the area of federal income tax research was broken as ITO subscribed to the Prentice-Hall Information Network, which allows access to late-breaking developments in Congress and rapid response to federal tax questions through document retrieval and electronic key-word searching.

For the legislative session, ITO drafted 13 administration-supported bills, ten of which were enacted into law. Testimony was prepared on more than 130 House bills and 150 Senate bills relating to taxation. Technical staff made more than 30 appearances at public hearings.

Keenly aware of the importance of communicating the department's position on tax laws, ITO personnel met with nearly 150 individuals to explain the application of tax laws. In addition, the staff answered nearly 1,900 telephone inquiries on matters such as the filing of general excise taxes and the effects of tax reform. Communication with private tax professionals was effected through the semiannual meetings of the Tax Practitioner Liaison, which provides a forum for the discussion of problems of mutual interest, review of procedures, and presentation of proposals for change.

Given the often complicated and frequently changing nature of tax laws, ITO provided nearly 1,500 hours of continuing professional education to departmental employees. Geared both to improving job performance today and preparing employees for career advancement tomorrow, courses included aspects of professional tax law, administration, and accounting subjects taught by ITO instructors and outside trainers.

The Income Technical Office is responsible for developing Hawaii state tax forms. With the acquisition of computer capability for desktop publishing, ITO is able to prepare text with a typeset appearance, combine it with pictures and drawings on the screen, and then rearrange the format to achieve the desired appearance before submittal for printing. Last-minute changes to tax forms, returns, and instructions are possible with this desktop publishing capability. During the year, ITO reviewed and revised 146 forms and 32 sets of instructions, developed 11 new forms and 7 new sets of instructions, and retired 2 forms.

Tax Research and Planning Office

The Tax Research and Planning Office published the 1985 "Hawaii Income Patterns — Individuals" in November, 1987, containing detailed information on income, adjustments, exemptions, deductions and tax liability reported by Hawaii's taxpayers on 1985 returns filed in 1986. Reported tax liability after credits amounted to $396 million, approximately $34 million more than the previous year.

In December, 1987, the 1985 study on tax credits was published covering information on the excise, renters', $1 general income, dependent care, energy, and child passenger restraint system tax credits. Of the total $24.2 million tax credits claimed for the 1985 tax year, excise tax credits amounted to $13.1 million, renters' credits $4.2 million and dependent care credits $3.5 million. Information contained in this report was used to assist the 1988 legislature in revising the excise tax credit schedule. Changes include increasing the amount of credit per person from a range of $8 to $48 to a new range of $10 to $55. The number of brackets was decreased and the income eligibility limit was liberalized by $10,000.

The second annual report of the results of the new liquor tax law instituted in 1986 was presented to the 1988 legislature in December, 1987. For the fiscal year ended June 30, 1987, $33.4 million was collected from nonmilitary wholesale liquor sales. Under the prior law, which was based on a 20% ad valorem rate, the applicable tax on the same amount of reported wholesale sales from nonmilitary sources would have been $38.0 million. In accordance with the provisions provided under Act 344, S.L.H. 1986, the department held public hearings in December, 1987, and June, 1988, to change the liquor tax rates on beer other than draft and on distilled spirits.

As in prior years, the Tax Research and Planning Office provided staff assistance to the Council on Revenues. The strong contributions to the state's economy from the construction industry and nonresidents, particularly from the Orient, produced higher than anticipated tax revenues. For the fiscal year ended June 30, 1988, the initial estimate of 4.6% growth was later revised to 11.9%. Nevertheless, actual tax collections amounted to $1,849.5 million, 15% above the collections for the prior year.

Preliminary reports from the Bureau of Economic Analysis of the U.S. Department of Commerce indicate that the calendar year 1987 increase in the Hawaii state total personal income was 7.0%, the percentage growth estimated earlier by the Council on Revenues.

For the 1988 legislature, the Tax Research and Planning Office provided tax impact information on all applicable tax measures.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Richard F. Kahle, Jr.
Deputy Director of Taxation	Gary S. Mijo

STAFF OFFICES

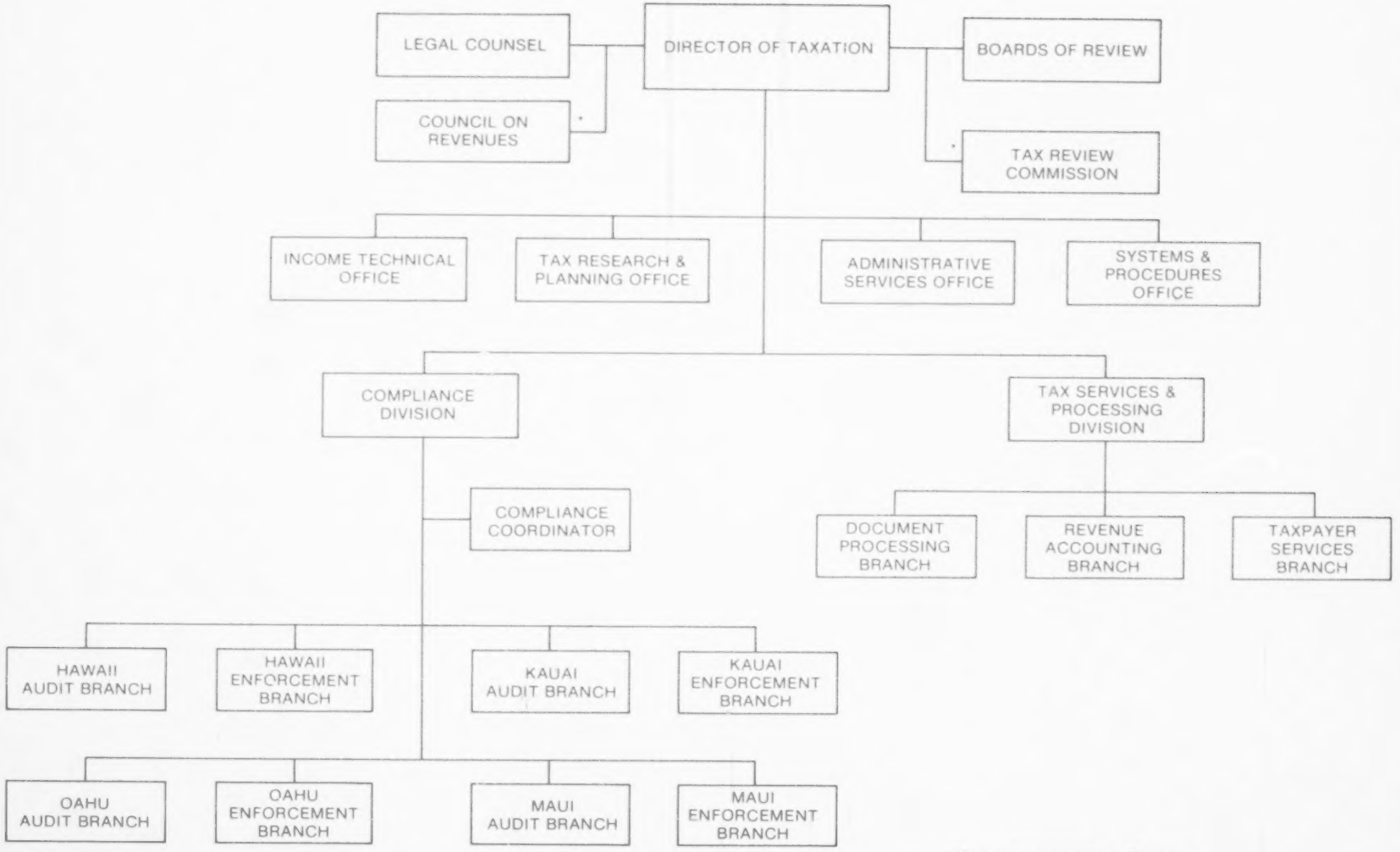
Income Technical Officer	Lawrence Nakano
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Vacant
Administrative Services Officer	Warren Higashi

OPERATIONS STAFF

Compliance Division Chief	Kenneth Murayama
1st Taxation District (Oahu)	
Audit Branch	Ronald Randall
Enforcement Branch	Wayne Kinoshita
2nd Taxation District (Maui)	
Audit Branch	Janis Shinyama
Enforcement Branch	Stanley Ching
3rd Taxation District (Hawaii)	
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District (Kauai)	
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services and Processing Division Chief	Marie Okamura
Taxpayer Services Branch	June Yamamoto
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Jerry Ebesu

ORGANIZATION CHART

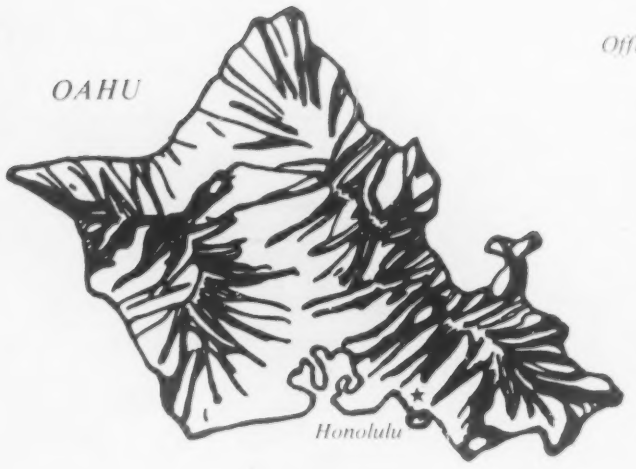
Department of Taxation
State of Hawaii



*For Administrative Purpose.

FIRST TAXATION DISTRICT

Island of Oahu



Office: 830 Punchbowl Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Kenneth Murayama
Audit Branch Chief
Ronald Randall
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Marie Okamura
Taxpayer Services Branch
June Yamamoto
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Jerry Ebesu

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai

Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
Janis Shinyama
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96721

Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

TAX APPEALS AND LITIGATION

BOARDS OF REVIEW

Consisting of five members for each district, the Boards of Review informally hear tax appeal disputes that cannot be resolved with the tax office in the respective district. Of the 40 appeals settled during fiscal 1987-1988, 29 were in favor of the state, 5 were in favor of the taxpayer, and 6 were split decisions. The total amount of tax liability due to the state was $147,187. A district-by-district summary of the appeals before the boards during the fiscal year is shown below:

	Oahu	Maui	Hawaii	Kauai
Appeals pending at start of fiscal year	57	16	7	3
New appeals filed	6	10	17	—
Appeals settled	17	9	11	3
Appeals pending at year end	46	17	13	—

COURT CASES AND LEGAL ACTIONS

During fiscal 1987-1988, the department's legal counsel closed the following cases:

Cases Concerning Taxes

State Supreme Court	2
Tax Appeal Court	4
Circuit Court	1

Other Matters

Mortgage Foreclosures	106
Bankruptcies	1
Other	1

Summarized below are four of the cases concerning taxes:

Aloha Motors, Inc., S.C. No. 12240 — *Decided on February 16, 1988*

The Hawaii Supreme Court held that: (1) the Tax Appeal Court had jurisdiction to hear taxpayer actions even though procedures for appeal were not followed, and (2) the taxpayer's claim for refund must be denied because subsequent discovery of a valid refund claim does not supersede statutes of limitations contained in tax statutes.

Goldman, T.A. No. 2470 — *Decided on March 31, 1988*

The Tax Appeal Court held that under HRS section 235-101, the Department of Taxation may assess additional income taxes against a taxpayer for changes resulting from an IRS audit of that taxpayer's federal return. Expiration of the three-year period for assessment under HRS section 235-111 notwithstanding, the department had one year from receiving notice of the IRS change to take action.

McDonald's Restaurants, T.A. No. 2336 — *Decided on March 10, 1988*

The Tax Appeal Court held that under the doctrine of collateral estoppel as applied in tax cases, the taxpayer cannot litigate issues actually litigated and determined in a previous appeal for a previous tax year, unless there has been a change in the controlling facts or law.

Menzsa, S.P. No. 87-164 — *Decided on October 8, 1987*

The Circuit Court held that under HRS section 842-12 the Chief of Police can obtain an order to inspect and examine (but not copy) the tax returns of persons suspected of willful failure to pay or report taxes, provided that the Chief of Police shows probable cause that the taxpayer willfully failed to pay or report taxes and that the taxpayer was engaged in organized crime or racketeering activity.

LEGISLATION

In its continuing efforts to conform Hawaii's tax laws to federal law, the 1988 state legislature passed Act 102, which, with certain exceptions, incorporates the Internal Revenue Code as of December 31, 1987. Other tax bills enacted are summarized below:

Act

10 Net Income Tax: Provides method of computing alternative capital gains tax on corporations.

11 Net Income Tax: Increases excise tax credits and liberalizes income eligibility levels for tax years after 12/31/87.

33 Net Income Tax: Provides tax exemption for certain trusts.

43 General Excise Tax: Provides tax exemption for certain alcohol fuels.

57 General Excise Tax: Exempts certain solid waste processing, disposal, and electric generating facilities.

64 Net Income Tax: Repeals tax credit for insulation of heater tanks and hot water pipes.

69 Taxation of Banks and Other Financial Corporations: Provides guidelines on taxation during first year of business, short years, and after mergers, acquisitions, and consolidations.

81 Net Income Tax, General Excise Tax, and Real Property Tax: Modifies certification requirements for tax exemptions for disabled persons.

87 Mortgage Loan Exemption: Repeals Hawaii Revised Statutes Chapter 242 dealing with tax exemption for certain mortgage loans made within 6 years from June 3, 1957.

107 Net Income Tax: Repeals income tax provisions in Hawaii Revised Statutes Chapter 235 relating to amortization of certain pollution control facilities and adopts federal provisions.

163 General Excise Tax: Expands definition of "scientific work" in regards to the tax exemptions for work done for the federal government.

167 General Excise Tax: Provides taxation of providers of transient accommodations and tour packagers or travel agents according to their portions of the proceeds.

173 General Excise Tax: Provides exemption for agricultural cooperative exports.

175 General Excise Tax: Provides exemptions for common paymasters and for certain transactions between related entities.

185 Net Income Tax: Provides a $1 general income tax credit.

199 Administration of Taxes: Allows retention of state income tax refunds of persons who owe federal income taxes.

216 Net Income Tax: Establishes a credit for low-income housing.

241 Transient Accommodations Tax: Technical and housekeeping amendments.

295 General Excise Tax: Provides exemption for certain stock exchange activities.

335 Liquor Tax: Modifies reporting requirements for adjustment of tax rates.

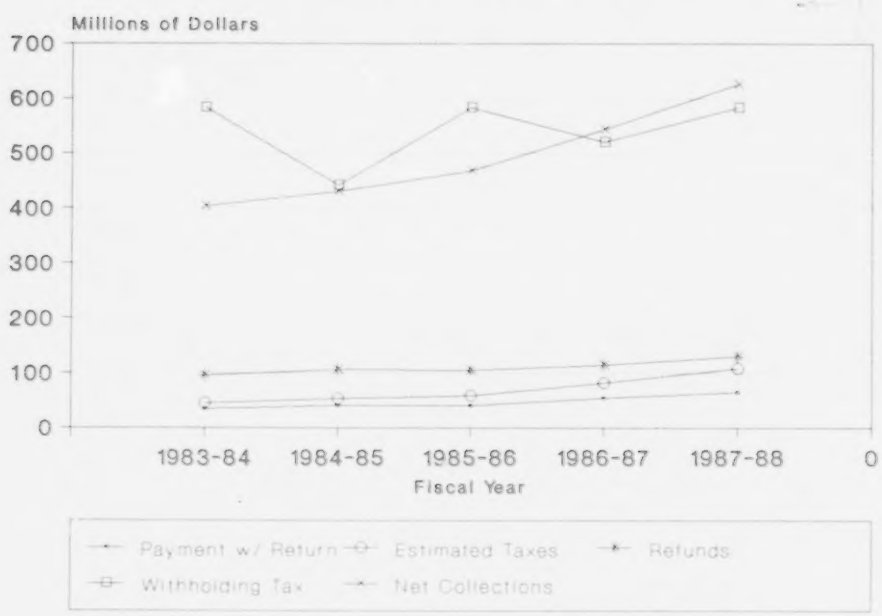
386 Administration of Taxes: Increases the penalties for failure to pay tax and failure to pay after filing.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

Taxes paid by individuals registered substantial gains over the past fiscal year, ranging from 32.0% for the declaration of estimated taxes, 19.6% for the payments with returns and 12.1% for the withholding tax on wages. Refunds advanced 14.3%, resulting in net individual income taxes of $626.0 million compared to $542.7 million a year earlier.

Components of the Individual Income Tax



Demand for services spurred by increased visitor spending coupled with improved construction activity impacted on the job market. The high employment status of the state contributed to the 15.4% growth in net individual income tax collections for fiscal year 1988.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

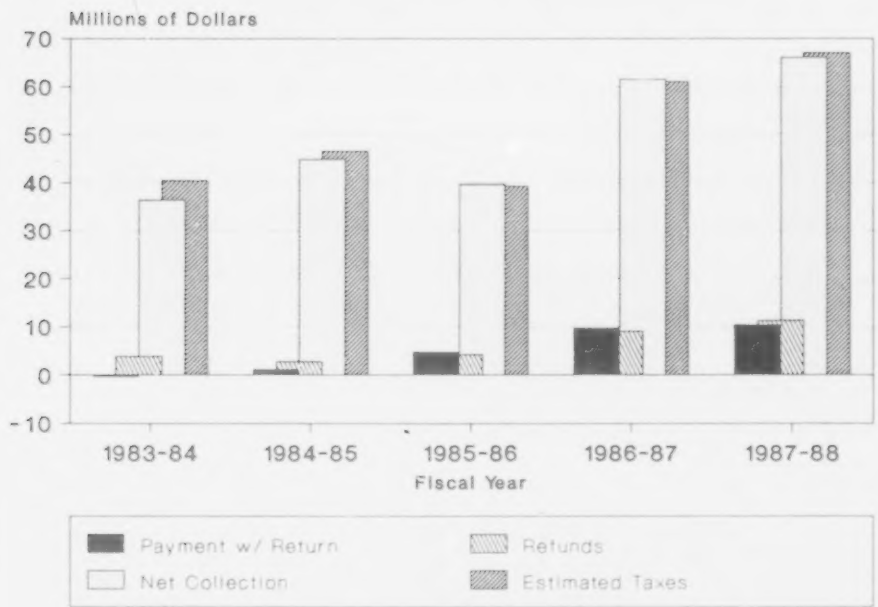
	FY 1988	FY 1987	Av. Annual Change (Percent) 1987-88	1983-88
Declaration of Estimated Taxes	$108,349	$ 82,098	32.0	22.2
Payment with Return	65,052	54,406	19.6	20.0
Withholding Tax on Wages	582,986	520,242	12.1	8.1
SUBTOTAL	$756,387	$656,746	15.2	10.4
Refunds	130,378	114,057	14.3	3.0
NET	$626,009	$542,689	15.4	12.6

Beginning with the 1987 tax year, each qualified resident taxpayer became eligible for a $45 food tax credit. This new credit contributed to the increase in tax refunds claimed by taxpayers on their 1987 tax returns filed between January and June, 1988. During this period, a total of 354,442 refunds were processed and averaged $317 per return. For the comparative 1987 period, an average $289 per return was refunded to 334,809 taxpayers. On a fiscal year basis, refunds advanced 14.3% to $130.4 million compared to $114.1 million for the prior year.

CORPORATE INCOME TAX

Although rising at a diminishing rate, all components of the corporate income tax registered increases over fiscal year 1987. Federal tax reform measures, notably the elimination of the capital gains deduction, contributed toward the nearly 61.0% increase in gross corporate tax collections in fiscal year 1986-87 over fiscal year 1985-86.

Corporate Income Tax Components



For fiscal year 1988, optimism in the economy is noted in the nearly 10.0% increase in estimated taxes to $67.0 million and the growth in payments made at the time of filing to $10.3 million compared to $9.6 million.

TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1988	FY 1987	1987-88	1983-88
Declaration of Estimated Taxes	$67,016	$61,030	9.8	20.0
Payment with Return	10,294	9,599	7.2	104.2
SUBTOTAL	$77,310	$70,629	9.5	24.1
Refunds	11,293	9,112	23.9	29.8
NET	$66,017	$61,517	7.3	24.6

Corporate refunds rose $2.2 million to $11.3 million, but this increase was more than offset by the $6.9 million growth in gross collections to $77.3 million.

GENERAL EXCISE AND USE TAXES

Hawaii's largest revenue producer, the general excise and use taxes, accounted for 45% of the total tax collections. These taxes reached $919.8 million, up 12.5% from $817.5 million for fiscal year 1987.

Spurred by construction activity, contracting receipts advanced 22% to $2,199.8 million. The growth in the number of visitors during the fiscal year contributed to the identical 13.5% growth in retail and hotel rental receipts to $10,046.6 million and $1,416.8 million, respectively.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1988 & 1987

(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1988	1987	% Change
TAX BASE				
Retailing		$10,046,654	$ 8,847,820	13.5
Services		3,068,201	2,745,483	11.8
Contracting		2,199,838	1,803,632	22.0
Hotel Rentals		1,416,790	1,247,969	13.5
All Other Rentals		2,189,637	1,987,445	10.2
All Others (4%)		1,774,181	1,463,118	21.3
Subtotal		$20,695,301	$18,095,467	14.4
Sugar Processing		$ 348,346	$ 368,074	- 5.4
Pineapple Canning		2,377	2,264	5.0
Producing		284,633	269,873	5.5
Manufacturing		594,274	597,848	- 0.6
Wholesaling		5,366,585	4,858,009	10.5
Use (½%)		2,339,989	2,012,067	16.3
Intermediary Services		165,990	139,451	19.0
Insurance Commissions		147,451	209,379	-29.6
Subtotal		$ 9,249,645	$ 8,456,965	9.4
TOTAL — ALL ACTIVITIES		$29,944,936	$26,552,432	12.8
TAX				
Retailing	4%	$ 401,866	$ 353,913	13.5
Services	4%	122,728	109,819	11.8
Contracting	4%	87,994	72,145	22.0
Hotel Rentals	4%	56,672	49,919	13.5
All Other Rentals	4%	87,585	79,498	10.2
All Others	4%	70,967	58,525	21.3
Subtotal	4%	$ 827,812	$ 723,819	14.4
Sugar Processing	50%	$ 1,742	$ 1,840	- 5.4
Pineapple Canning	50%	12	11	5.0
Producing	50%	1,423	1,349	5.5
Manufacturing	50%	2,971	2,989	- 0.6
Wholesaling	50%	26,833	24,290	10.5
Use	50%	11,700	10,060	16.3
Intermediary Services	50%	830	697	19.0
Insurance Commissions	15%	221	314	-29.6
Subtotal		$ 45,732	$ 41,552	10.1
Unallocated		46,251	52,154	
TOTAL — ALL ACTIVITIES		$ 919,796	$ 817,525	12.5

NOTE: Due to rounding, detail may not add to totals.

TRANSIENT ACCOMMODATIONS TAX

Through Act 340, the 1986 State Legislature added a new chapter to the law imposing a 5.0% tax on the gross proceeds derived from the furnishing of transient accommodations beginning January 1, 1987. This new law yielded a tax revenue of $23.5 million with 8,619 transient accommodation operators registered with the department as of June 30, 1987.

TRANSIENT ACCOMMODATIONS TAX
(In Thousands of Dollars)

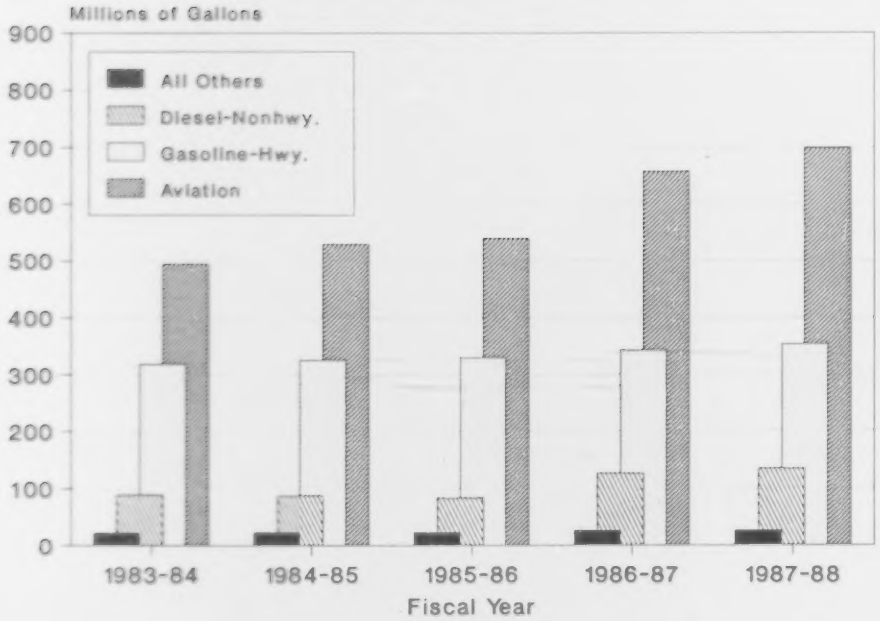
	FY 1988	FY 1987
Transient Accommodations Tax	$67,279	$23,510
Transient Accommodations Fees	11	9
TOTAL	$67,290	$23,519

After a full year's experience, the number of registered operators has grown to 10,770 and revenues accruing to the state general fund totalled $67.3 million for fiscal year 1988. Although small compared to general excise use and individual income tax collections, the transient accommodations tax is the third largest revenue producer of general fund tax revenues for the fiscal period ended 1988.

FUEL TAXES

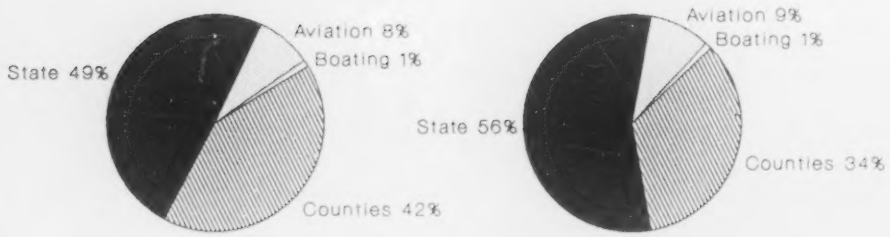
Statewide fuel consumption increased at a moderate rate of 5.2%. With the influx of visitors, aviation fuel consumption rose 40.8 million gallons to 697.5 million gallons. Nonhighway diesel oil and highway gasoline fuel consumption increased 8.6 million gallons and 10.6 million gallons, respectively, over consumption for fiscal year 1987.

Trends in Fuel Consumption



Although the state administers and collects the fuel tax, it is a source of revenue for both the state and county governments. Fiscal year 1988 collections topped fiscal year 1987 by $11.9 million, growing to $85.2 million.

Distribution of Fuel Tax Collections by Type of Fund



As shown in the above chart, the counties' share of fuel collections grew from 34% to 42% in fiscal year 1988. This change was prompted by the increase in tax rates by the counties of Honolulu and Hawaii. Effective July 1, 1987, the City and County of Honolulu increased the gasoline and diesel fuel tax rates from 7.5 cents to 11.5 cents per gallon and the liquid petroleum rates from 5 cents to 8 cents per gallon. The County of Hawaii's rate increase became effective on April 1, 1988, with the gasoline and diesel rates changing from 5 cents to 8.8 cents per gallon. The liquid petroleum rate rose from 3 cents to 6.8 cents per gallon.

FUEL TAX RATES PER GALLON[1]

	State	County	Total
GASOLINE AND DIESEL OIL (HWY. USE):			
City & County of Honolulu	11.0¢	11.5¢[2]	22.5¢
County of Maui	11.0¢	8.0¢	19.0¢
County of Hawaii	11.0¢	8.8¢[3]	19.8¢
County of Kauai	11.0¢	4.0¢	15.0¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	7.0¢	8.0¢	15.0¢
County of Maui	7.0¢	5.0¢	12.0¢
County of Hawaii	7.0¢	6.8¢	13.8¢
County of Kauai	7.0¢	3.0¢	10.0¢

[1]Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the state at one cent per gallon.

[2]Effective July 1, 1987.

[3]Effective April 1, 1988.

The counties administer and collect the state motor vehicle weight tax and registration fees. An accrual to the state highway fund, this revenue source totalled $18.7 million, up from $17.8 million for fiscal year 1987.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1988	FY 1987	Difference
STATE HIGHWAY FUND:			
Gasoline	$38,358	$37,215	$ 1,143
Diesel Oil — Nonhighway	1,338	1,254	84
Diesel Oil — Highway	2,227	2,280	(53)
Liq. Pet. Gas — Off Highway	29	32	(3)
Liq. Pet. Gas — Highway	79	76	3
SUBTOTAL	$42,031	$40,857	$ 1,174
Motor Vehicle Weight Tax/Reg. Fees	18,663	17,820	843
TOTAL	$60,694	$58,677	$ 2,017
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$28,396	$18,903	$ 9,493
County of Maui	3,326	3,102	224
County of Hawaii	2,772	2,409	363
County of Kauai	891	792	99
TOTAL	$35,385	$25,206	$10,179
BOATING SPECIAL FUND	$ 782	$ 667	$ 115
STATE AIRPORT FUND:			
Aviation Fuel	$ 6,975	$ 6,567	$ 408

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

			Av. Annual Change (Percent)	
	FY 1988	FY 1987	1987-88	1983-88
Gasoline	353,492	342,888	3.1	2.6
Diesel Oil — Nonhighway	134,222	125,604	6.9	10.3
Diesel Oil — Highway	20,449	20,738	- 1.4	5.1
Liq. Pet. Gas — Off Highway	2,923	3,194	- 8.5	0.1
Liq. Pet. Gas — Highway	1,134	1,079	5.1	2.0
Small Boats — Gasoline	83	155	-46.5	-13.5
Small Boats — Diesel Oil	973	1,060	- 8.2	22.6
Aviation Fuel	697,468	656,659	6.2	7.8
TOTAL	1,210,744	1,151,377	5.2	6.2

PUBLIC SERVICE COMPANY TAXES

Revenue from the public service company tax topped the 1987 collection by $1.8 million. Payments by public utilities and by motor and contract carriers totalled $10.0 million and $53.4 million, respectively. Coupled with penalty and interest, revenue from the public service company taxes rose to $63.6 million in fiscal year 1988 in contrast to $61.8 million for the prior year.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

	FY 1988	FY 1987	Av. Annual Change (Percent) 1987-88	1983-88
Public Service Company Taxes	$63,412	$61,678	2.8	-0.4
Penalty & Interest	171	114	50.3	8.0
TOTAL	$63,583	$61,792	2.9	-0.4

INHERITANCE AND ESTATE TAXES

A total of 1,888 estates were settled during the year, of which 263, or 14%, were taxable. Inheritance and estate taxes reached $7.3 million, up $2.1 million from $5.2 million for fiscal year 1987.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

	FY 1988	FY 1987	Av. Annual Change (Percent) 1987-88	1983-88
Inheritance Tax	$2,026	$2,090	- 3.0	- 10.6
Estate Tax	5,154	3,016	70.9	182.3
SUBTOTAL	$7,180	$5,106	40.6	12.8
Penalty & Interest	134	72	87.0	28.2
TOTAL	$7,314	$5,178	41.3	12.9

Estates of persons who dies before June 30, 1983, are subject to the inheritance tax. For decedents after that date, a Hawaii estate tax is imposed only if the estate is subject to the federal estate tax.

OTHER TAXES

Reflecting the rise in real estate activity, conveyance tax collections rose 16.2% to $4.2 million. With the exception of banks and other financial corporation tax collections, all other revenue sources registered moderate gains.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	FY 1988	FY 1987	Av. Annual Change (Percent) 1987-88	1983-88
Banks & Other Financial Corp	$ 12,036	$ 15,276	-21.2	165.0
Conveyance	4,211	3,622	16.2	25.8
Empl. Security Contributions	77,367	76,056	1.7	3.1
Insurance Premiums	38,009	35,949	5.7	7.8
Liquor & Permits	38,201	34,547	10.6	14.2
Tobacco & Licenses	21,318	19,060	11.8	4.1
General Excise Licenses & Fees	436	424	2.8	3.8
TOTAL	$191,578	$184,934	3.6	9.9

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

The Department of Taxation is responsible for the collection of liabilities for the ten tax laws it administers. It also collects the Hawaii employment security tax which is administered by the Department of Labor and Industrial Relations but payable to the director of taxation. Net tax collections from these sources totalled $1,984.7 million compared to $1,730.9 million a year ago for a gain of 14.7%. Shown below is a comparative summary of taxes collected by the department by taxation district.

TAX COLLECTIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1988	FY 1987	1987-88	1983-88
OAHU				
Gross Collections*	$1,823,084	$1,599,704	14.0	9.2
Less Appeals, Payments Under Protest, Refunds, TDI	122,199	111,806	9.3	- 1.4
Net Collection by Department	$1,700,885	$1,487,898	14.3	10.3
MAUI				
Gross Collections*	$ 134,037	$ 117,267	14.3	12.0
Less Appeals, Payments Under Protest, Refunds, TDI	10,723	10,217	5.0	- 2.2
Net Collection by Department	$ 123,314	$ 107,050	15.2	14.6
HAWAII				
Gross Collections*	$ 120,322	$ 106,231	13.3	11.0
Less Appeals, Payments Under Protest, Refunds, TDI	12,705	11,070	14.8	2.1
Net Collection by Department	$ 107,617	$ 95,161	13.1	12.8
KAUAI				
Gross Collections*	$ 58,728	$ 46,834	25.4	14.8
Less Appeals, Payments Under Protest, Refunds, TDI	5,797	6,063	- 4.4	16.6
Net Collection by Department	$ 52,931	$ 40,771	29.8	17.6

*Excludes conveyance, insurance premiums, and motor vehicle weight taxes.

Taxes collected by other agencies include $4.2 million from conveyance taxes collected by the Department of Land and Natural Resources, $38.0 million in insurance premium taxes collected by the Department of Commerce and Consumer Affairs and $18.7 million from motor vehicle weight and registration fees collected by the four counties. Including these amounts, total tax collections amounted to $2,045.6 million, up 14.4% from $1,788.3 million for fiscal year 1987.

TAX COLLECTIONS

SOURCE OF REVENUE	FY 1988 Amount Collected	FY 1988 % of Total	FY 1987 Amount Collected	FY 1987 % of Total
Banks — Financial Corps	$ 12,035,596	0.59%	$ 15,276,289	0.85%
Conveyance	4,210,529	0.21%	3,622,266	0.20%
Employment Security Contributions	77,367,455	3.78%	76,055,780	4.25%
Fuel	85,172,185	4.16%	73,297,291	4.10%
General Excise & Use	919,795,623	44.96%	817,525,381	45.72%
Income — Corporations	66,017,436	3.23%	61,516,739	3.44%
Income — Individuals	626,008,717	30.60%	542,689,337	30.35%
Inheritance and Estate	7,314,264	0.36%	5,177,736	0.29%
Insurance Premiums	38,009,445	1.86%	35,949,389	2.01%
Liquor & Permits	38,201,225	1.87%	34,546,649	1.93%
Motor Vehicle Weight/ Registration Fees	18,662,632	0.91%	17,820,079	1.00%
Public Service Companies	63,586,627	3.11%	61,791,619	3.46%
Real Property	184,929	0.01%	0	0.00%
Tobacco & Licenses	21,318,154	1.04%	19,060,096	1.07%
Trans. Accom. Fees	10,770	0.00%	8,619	0.00%
Trans. Accom. Tax	67,278,746	3.29%	23,510,432	1.31%
All Others	455,804	0.02%	424,156	0.02%
TOTAL	$2,045,630,137	100.00%	$1,788,271,858	100.00%

The state general fund's share of the total taxes collected by the state amounted to $1,849.5 million, while the counties received $35.4 million from county fuel and $184 thousand in pre-fiscal year 1982 real property taxes.

DISTRIBUTION OF COLLECTIONS

	FY 1988 Amount Collected	FY 1988 % of Total	FY 1987 Amount Collected	FY 1987 % of Total
STATE FUNDS:				
State General	$1,849,499,746	90.41%	$1,608,493,655	89.95%
State Highway	60,693,645	2.97%	58,676,864	3.28%
State Highway (Act 239, S.L.H. 1985)	14,328,435	0.70%	12,230,935	0.68%
State Airport	6,974,679	0.34%	6,566,591	0.37%
Boating Special Fund	781,975	0.04%	667,307	0.04%
Unemployment Trust	77,367,455	3.78%	76,055,780	4.25%
Election Campaign Fund	414,756	0.02%	374,116	0.02%
SUBTOTAL — STATE	$2,010,060,691	98.26%	$1,763,065,248	98.59%
COUNTY REVENUES:				
Property	$ 184,929	0.01%	0	0.00%
Fuel	35,384,517	1.73%	25,206,608	1.41%
SUBTOTAL — COUNTIES	$ 35,569,446	1.74%	$ 25,206,608	1.41%
TOTAL	$2,045,630,137	100.00%	$1,788,271,856	100.00%

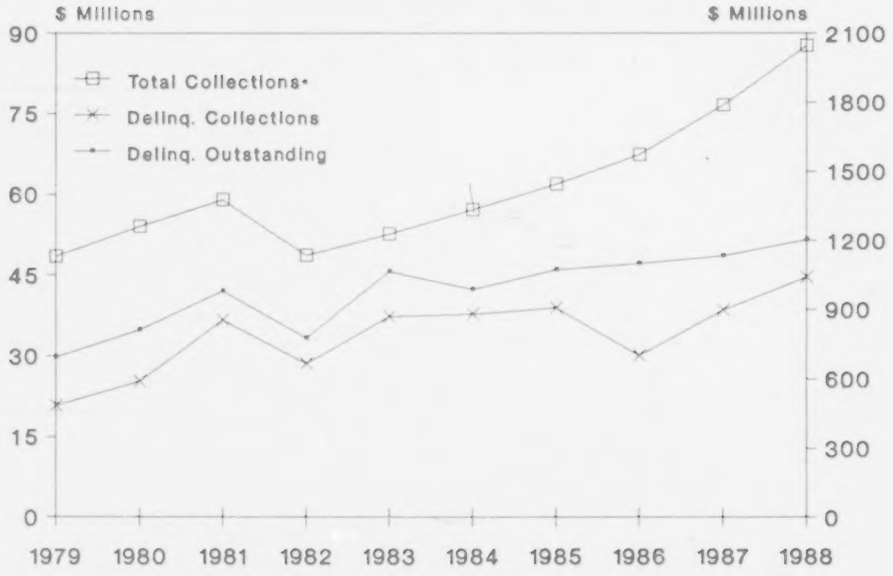
During the year, $75.0 million in state fuel taxes, motor vehicle weight and registration fees collected by the counties, and general excise taxes derived from the sale of liquid fuel sold or used on public highways were distributed to the state highway fund. The remainder of the fuel taxes was transferred to the state airport fund and the state boating fund.

Employment security contributions collected by the department were distributed to the Unemployment Trust Fund. The Election Campaign Fund received $415 thousand from checkoffs by taxpayers on their individual income tax returns.

DELINQUENT TAXES

Operational effectiveness in the Enforcement Branch resulted in a larger number of delinquent accounts closed, or 51,698 compared to 41,648 for fiscal year 1987. New referrals increased to 53,360 and at year end there were 26,403 outstanding accounts compared to 24,741 for the previous year.

Delinquent Taxes Collected and Outstanding



Net collections, after deducting write-offs in uncollectible accounts, soared 13.2% to $44.6 million compared to $39.4 million for 1987. With the amount of new referral accounts increasing $11.3 million to $52.0 million, the amount of delinquencies outstanding at the end of the year increased 6.2% to $51.6 million.

STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4% with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a rate of 0.15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: (1) taxation of cost-of-living allowances received by federal employees in Hawaii; (2) exclusion of most pension income; (3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and (4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, in contrast to other states which tax cigarettes on the basis of the number in the pack. Act 344 of the 1986 Legislature temporarily repealed the 20% wholesale tax on liquor and replaced it with a gallonage tax. Fiscal year 1988 tax rates were: $5.20 per wine gallon on distilled spirits, $2.00 per wine gallon on sparkling wine, $1.30 per wine gallon on still wine, $0.50 per wine gallon on draft beer, $0.81 per wine gallon on cooler beverages, and effective January 1, 1988, $0.85 per wine gallon on nondraft beer.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate of motor carrier and contract carrier business is 4% of gross income.

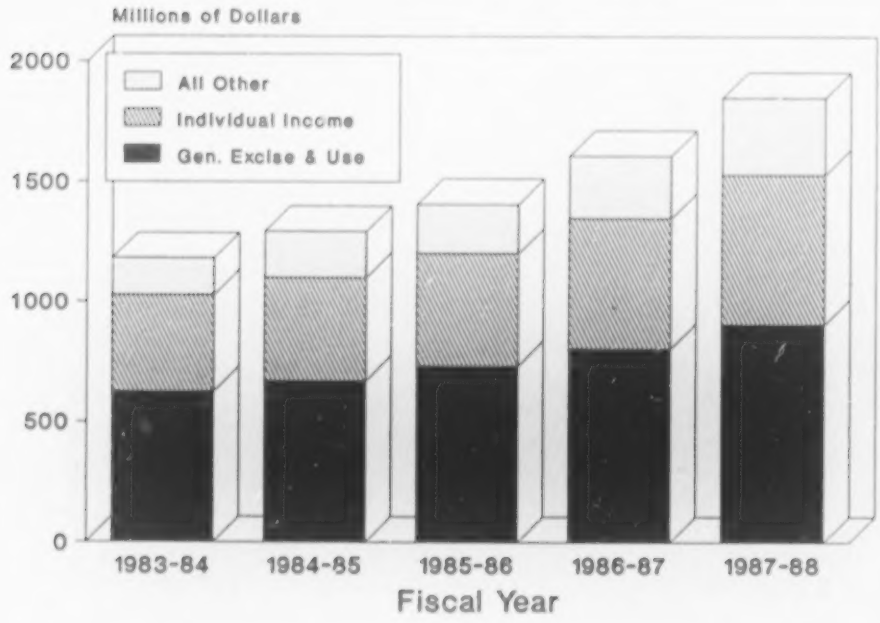
BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the director of taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.19%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5 cents on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

TRANSIENT ACCOMMODATIONS TAX: This tax is imposed at a rate of 5% on the gross rental proceeds from furnishing accommodations to transients for less than 180 days. Exemptions are granted for health care facilities, school dormitories, nonprofit corporations, military personnel on permanent duty, government-subsidized low-income renters, full-time students, and complimentary accommodations.

Trends in General Fund Revenue



STATE GENERAL FUND

SOURCE OF REVENUE	FY 1988 Amount Collected	FY 1988 % of Total	FY 1987 Amount Collected	FY 1987 % of Total
Banks — Financial Corps	$ 12,035,596	0.65%	$ 15,276,289	0.95%
Conveyance	4,210,529	0.23%	3,622,266	0.23%
General Excise & Use	905,467,188	48.96%	805,294,446	50.07%
Income — Corporations	66,017,436	3.57%	61,516,739	3.82%
Income — Individuals	625,593,961	33.82%	542,315,221	33.72%
Inheritance & Estate	7,314,264	0.40%	5,177,736	0.32%
Insurance Premiums	38,609,445	2.06%	35,949,389	2.23%
Liquor & Licenses	38,201,225	2.06%	34,546,649	2.15%
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Trans. Accom. Tax	67,278,746	3.64%	23,510,432	1.46%
All Others	455,804	0.02%	424,156	0.03%
TOTAL	$1,849,499,745	100.00%	$1,608,493,657	100.00%

Major responsibilities of the Income Technical Office include drafting testimony on tax-related bills and developing state tax forms.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are established by the council of each county. Revenue from fuel taxes goes into state and county special funds for use in the construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect at the end of this fiscal year are: 11.5 cents for the City and County of Honolulu, 8 cents for the County of Maui, 8.8 cents for the County of Hawaii, and 4 cents for the County of Kauai. The state rate is 11 cents for all gasoline and diesel oil used on the highways and 1 cent for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1 cent per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate of up to 5.4% and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the director of taxation.

Many of the departments's tax forms are printed in-house by Donna Wright-Pacleb of the Administrative Services Office.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

An outstanding characteristic of the state's tax structure is its use of income tax credits. These credits were designed to (a) provide relief to low-income taxpayers; (b) promote energy conservation; and (c) encourage public safety. Over the years, changes were made to simplify both the filing process and the administration of some of these tax credits.

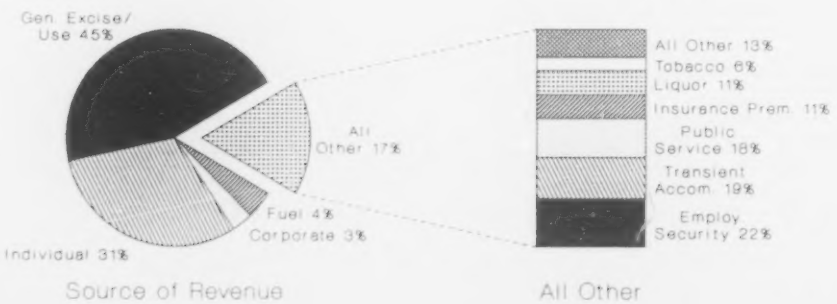
Two tax credits which can only be claimed by resident taxpayers with adjusted gross incomes under $20,000 are the excise tax credit and the low-income renter's tax credit. For taxable years beginning after December 31, 1987, the excise tax credit may be claimed by resident taxpayers with adjusted gross incomes under $30,000. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The dependent care, energy, and child passenger restraint tax credits are available to qualified taxpayers of all income levels. A provision of Act 239, S.L.H. 1987, made available to qualified resident individuals a $45 food tax credit beginning January 1, 1987. This refundable credit expires after December 31, 1990. Except for the child passenger restraint tax credit, all the other credits are available to resident taxpayers only.

For the taxable year 1987, Act 41 of the 1987 Legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the state constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has sixteen separate tax laws of which thirteen are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.

Tax Composition

Fiscal Year Ended 1988



Source of Revenue — All Other

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1987

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235—Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 10.0% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is $1,700; single is $1,000; head of household is $1,500; and married filing separately is $850. Tax rates for corporations are 4.4% up to $25,000; 5.4% over $25,000 but not over $100,000; and 6.4% over $100,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th; June 20th; September 20th; and January 20th. Corporations one-half September 20th and January 20th.
(2) Estate and Transfer (For decedent's dying after 6-30-83) Chapter 236D—Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC Section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (M-6) must be filed by person responsible for filing federal Estate Tax Return (Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extensions of time, provided extension is submitted to Hawaii within 30 days of issuance.
(3) General Excise (Gross Income) Chapter 237—Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning, all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, sub-agents and solicitors who are taxed at .15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238—Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Transient Accommodations Tax Chapter 237D—Sec. 237D-1 to 237D-17	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 5 per cent.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(6) Public Service Company Chapter 239—Sec. 239-1 to 239-11	Nature of Tax.—(1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues. If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2575%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment—general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1)(a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan companies, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20th, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 15¢ to 22½¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 15¢ to 22½¢ per gallon on diesel oil and from 10¢ to 15¢ per gallon on liquified petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D-Sec. 244D-1 to 244D-17	"Dealers" as defined in the law and certain others who sell or use liquor may pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax. Act 344, 1986L, temporarily repeals the 20 percent wholesale tax on (intoxicating) liquor until July 1, 1989 and imposes a per wine gallon tax for distilled spirits, sparkling wine, still wine, cooler beverages, beer other than draft beer, and draft beer from June 30, 1986 to June 30, 1989. Effective July 1, 1986 the tax rates are $5.20 on distilled spirits, $2.00 on sparkling wine, $1.30 on still wine, $.81 on cooler beverages and beer other than draft beer, and $.50 on draft beer.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-176	This is a tax on wages paid, payable by employing units with one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. Effective January 1, 1985, an employer's total contribution rate will not be less than 0% or greater than 5.4%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431—Sec. 431-1 to 431-779	Tax on insurance companies (Underwriters) based on premiums received in Hawaii, in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%, Foreign 3.197%, 4.68% on Surplus Lines; Ocean Marine .8775% on gross underwriting profit; on other Insurance Domestic 2.9647%, Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR

ENDING 6/30/88

Training Course	No. of Employees	Hours of Training
1. Introduction to IBM-PC DOS	8	24
2. 55th Annual Meeting of the NATA	1	36
3. Writing Minutes	1	4
4. Supervisory Management Course I	19	380
5. Writing Skills Refresher	31	248
6. 20th Annual Meeting — Multistate Tax Commission	1	24
7. Lotus Spreadsheet	3	9
8. Turn-Of-The-Year Workshop/Convocation	8	256
9. Introduction to DBase III Plus	7	21
10. Hard Disk Management	1	3
11. DOTAX Management Conference/Workshop	31	248
12. Intermediate IBM-PC DOS	1	3
13. Current Tax Laws — Hawaii	230	690
14. 1987 NATA Tobacco Tax Section Annual Meeting	1	24
15. MPS for RA & EP/EO First Level Managers	1	72
16. Labor Relations Workshop	5	40
17. Self-Management: Producing Measurable Results	2	32
18. NATA 1987 Workshop on Computer Application Programming in State Tax Administration	4	96
19. How To Deal With Difficult People	8	64
20. Lotus: Data Management	3	9
21. Desktop Publishing With Ventura	1	2
22. Managerial Skills Seminar	1	40
23. Equal Employment Law Seminar	1	20
24. Effective Speech Writing	1	8
25. Intermediate DBase III Plus	2	18
26. Workshop on EEO/AA Program	2	8
27. Team Building for Secretaries and Their Managers	2	16
28. ASO Institute	1	8
29. 1987 Clerical Seminar	58	464
30. 24th Annual Hawaii Tax Institute	10	400
31. NATA Conference On Revenue Estimating	1	20
32. Income Tax Update & Tax Reform Act of 1986	19	304
33. Data Base Technology	1	4
34. Ethics Code Workshop	11	22
35. Time Management	3	24
36. Improving Your Memory	1	8
37. Labor Relations Orientation for Supervisors	22	176
38. Excise & Use Tax In Hawaii	1	8
39. Conference In Honor Of The Bicentennial	1	7
40. The Prentice-Hall Information Network (PHINet) Federal Tax Database	72	180
41. Certificate in Public Administration	1	250
42. Workshop On Investigative Procedures for Discrimination Complaints	1	16
43. Income Tax Changes & Change in Hawaii Tax Forms	126	378
44. Introduction to EEO Law & Affirmative Action	1	16
45. The Revenue Act of 1987 & Regulatory Update	1	8
46. Introduction To EEO Law	6	24

Training Course	No. of Employees	Hours of Training
47. Conducting Effective Business Meetings	1	8
48. Effective Project Management	12	36
49. Mastering Desktop Publishing	2	6
50. Hawaii Information Processing Conference	6	48
51. Communications Workshop	2	48
52. GEW/TAT Project Planning Session	27	108
53. Meeting the Media	2	14
54. 1988 Institute on State and Local Taxation	1	16
55. Applied Technologies In Systems Analysis	2	30
56. Policy Analysis For Fast Track Managers	1	69
57. 20th Annual Board of Taxation Review Conference	9	144
58. 56th Annual Meeting of the NATA	1	36
59. Wang PC Overview/DOS Commands	1	4
60. Basic Wang Lotus 1-2-3 Spreadsheets	1	4
61. Interviewing, Ranking and Selection	1	12
62. 1988 Conference of Civil Service Commissioners and Personnel Directors	2	34
63. EEO For Managers and Supervisors	18	144
64. Tax Research Using The CCH Tax Service	20	40
TOTAL	822	5,513

NOTE: List does not include certain general interest training.

Cashiers in the Document Processing Branch's Monetary Control Section receive payments from taxpayers.

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Thomas Cabrinha
Sam Okinaga
Gregory Pai
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The File Maintenance Section is responsible for storage, retrieval and security of a vast number of tax returns.

Departmental employees in bright yellow "Drop Box" shirts stayed up late on April 20 to collect returns from last-minute filers.

A major function of the Office Audit Section of the Audit Branch is to resolve errors on taxpayer returns.

Neighbor Island branch chiefs confer with Director Kahle. Sitting from left: Helen Teraoka, Stanley Ching, Ernest Balderas. Standing: Janis Shinyama, Wendell Serrao, Director Kahle, Ronald Yabe.

Kauai staff at the Fourth Taxation District Office at 3060 Eiwa Street in Lihue.